

1. Starting today, you invest \$1000 a year into your individual retirement account (IRA). If your IRA earns 10% a year, how much will be available at the end of 40 years? (Assume the last of the 40 payments is in year 39).
- \$401,448.
 - \$442,593.
 - \$486,852.**
 - \$441,593.
 - \$487,852.

2. When comparing a AAA rated bond with a C rated bond,
- the AAA bond is more risky from investors standpoint.
 - investors will demand a lower rate of return on the AAA rated bond.**
 - the C rated bond is considered investment grade.
 - the AAA rated bond would be considered a junk bond.
 - all of the above statements are true.

3. The interest on corporate bonds is typically paid:
- semi-annually.**
 - annually.
 - quarterly.
 - monthly.
 - daily.

4. If the market price of a bond decreases, then:
- the yield to maturity decreases.
 - the yield to maturity increases.**
 - the coupon rate increases.
 - the coupon rate decreases.
 - the book value of the bond increases.

5. Given the following bond quote, what is the bond's coupon rate?

<u>Bonds</u>	<u>Cur</u>	<u>Vol</u>	<u>Close</u>	<u>Net</u>
	<u>Yld</u>			<u>Chg</u>
IBM7s09	8.3	110	84	-1

- 6.00%
- 7.00%**
- 8.00%
- 8.33%
- 9.33%

6. How much would we have to pay for the bond in the previous problem?
- \$ 830
 - \$ 700
 - \$ 84
 - \$ 83
 - \$ 840**

7. What is the approximate present value of perpetuity of \$50 per year if the appropriate discount rate is 10.4%?
- \$1000
 - \$ 750
 - \$ 500
 - \$ 481**
 - \$ 462

8. Assume we are borrowing \$50,000 to be repaid in equal installments at the end of the next 5 years. Approximately how much will each annual payment be if the interest rate is 10% (compounded annually)?
- \$ 6,595
 - \$10,000
 - \$ 5,000
 - \$13,190**
 - \$12,195

9. Your firm has the following cash flows for each of the following time periods(t):

t=0	0
t=1	10,000
t=2	15,000
t=3	20,000

What is the approximate present value of the firm's cash flows if the going rate of interest is 10% (compounded annually)?

- \$32,729
- \$34,221
- \$36,514**
- \$40,165
- \$45,000

10. A mortgage company offers to lend you \$85,000; the loan calls for payments (starting one year from now) of \$9,016.74 per year for 30 years. What interest rate is the mortgage company charging you?
- 9.0%
 - 9.5%
 - 10.0%**
 - 10.5%
 - 11.0%
11. You just graduated, your rich uncle has promised to pay you \$30,000 in 4 years if you go back to school to become a lawyer. If the current interest rate is 16% compounded quarterly, how much is the \$30,000 worth today?
- \$21,432
 - \$16,017**
 - \$23,763
 - \$25,200
 - \$16,569
12. What is the approximate present value of an annuity of \$12 received at the end of each year for seven years? Assume a discount rate of 11% compounded annually.
- \$25
 - \$40
 - \$57**
 - \$65
 - \$85
13. If you put \$510 in a savings account at the end of each year for 30 years, how much money will be in the account at the end of the 30th year given the interest rate is 8% compounded annually?
- \$15,300
 - \$20,100
 - \$41,345
 - \$57,774**
 - \$ 5,132
14. If a bond with an 8% coupon rate (interest paid annually) and a \$1,000 par value is currently selling for \$1041, what is the bondholder's yield-to-maturity (YTM) if the bond matures in 5 years?
- 5%
 - 6%
 - 7%**
 - 8%
 - 9%
15. A \$1,000 par bond having an 11% coupon rate (interest is paid semiannually) with 11 years to maturity is currently selling to yield 11% (YTM). The market price for this bond is approximately
- \$1000**
 - \$785
 - \$1214
 - \$1100
 - \$813
16. In the current yield of a bond is 8% and the capital gains yield for the bond is 1%, what is the bond's yield to maturity?
- 9%**
 - 8%
 - 7%
 - 1%
 - We need to know the price of the bond to be able to determine the YTM.
17. A \$1,000 par value bond will mature in 10 years. This bond pays interest of \$45 every year. If you require a nominal annual return of 8 percent per year, then what is the approximate value of this bond?
- \$ 851
 - \$1,215
 - \$ 765**
 - \$ 979
 - \$1,068
18. Given the following bond quote, what is the bond's current yield?
- | Bonds | Cur Yld | Vol | Close | Net Chg |
|---------|---------|-----|-------|---------|
| AMR6s99 | ? | 110 | 101 | -1 |
- 6.00%
 - 5.35%
 - 9.90%
 - 6.15%
 - 5.94%**
19. Elf Corporation has issued zero coupon bonds with a par (maturity) value of \$1000 and a maturity of 15 years. You demand a rate of 14% on these bonds. What is the approximate intrinsic value of Elf's zero coupon bonds?
- \$1000
 - \$ 638
 - \$ 240
 - \$ 150
 - \$ 140**

20. A 30-year, 12 percent semiannual coupon bond has 24 years left to maturity. The bond currently sells for \$1100. What is the bond's YTM?
- a) 12.00%
 - b) 6.43%
 - c) 10.86%
 - d) 10.82%**
 - e) 5.41%
21. If the yield to maturity (YTM) of a bond is less than the coupon rate, the bond will sell at:
- a) A discount.
 - b) A premium.**
 - c) Par value
 - d) Market value.
 - e) Call value.
22. Where do the majority of bond trades take place?
- a) The New York Stock Exchange (NYSE).
 - b) The American Stock Exchange (AMEX).
 - c) The NASDAQ.
 - d) The Over-the-counter (OTC) market.**
 - e) The Yahoo market.
23. Bob borrows \$5000 from his parents to purchase a used car. He agrees to make payments at the end of each month for 5 years. If the interest rate on this loan is 12%, what is the amount of each payment? (Approximately)
- a) \$1387
 - b) \$1000
 - c) \$ 600
 - d) \$ 111**
 - e) \$ 83
24. Your company is planning to borrow \$102,992.43 on a 5-year, 14%, annual payment, fully amortized term loan. What amount of the payment made at the end of the second year will represent interest?
- a) \$30,000
 - b) \$14,419
 - c) \$15,581
 - d) \$12,238**
 - e) \$17,600
25. You have determined that your budget will only allow you to make a \$800 monthly mortgage payment. If interest rates are currently 7.5% and mortgage terms are typically 30 years, what price range home should you be searching for if your downpayment is \$10,000? (approximately)
- a) \$115,125
 - b) \$125,125
 - c) \$124,414**
 - d) \$114,414
 - e) \$104,414

